Coachman Insurance Company
2002
ANNUAL REPORT

Coachman
INSURANCE COMPANY

Responsibility for Financial Statements

The financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the financial statements fairly reflect the financial position, results of operations and cash flows of Coachman Insurance Company (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholders and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

KPMG have been appointed external auditors. Their responsibility is to report to the shareholders and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

John Dobie
Director

Paul Christoff
Chief Financial Officer

February 14, 2003

Actuary's Report

To the Shareholders of Coachman Insurance Company

I have valued the policy liabilities of Coachman Insurance Company for its statement of financial position at December 31, 2002 and their change in the statement of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

Richard Gauthier
Fellow, Canadian Institute of Actuaries

February 14, 2003

Auditors' Report

To the Shareholders of Coachman Insurance Company

We have examined the statement of financial position of Coachman Insurance Company as at December 31, 2002 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada
February 14, 2003

Statement of Financial Position

December 31	2002	2001
	(thousands of $)	
Assets		
Cash and treasury bills (note 3)	$ 5,529	$ 1,573
Accounts receivable (note 4)	14,281	11,000
Due from Facility Association (note 15)	656	409
Prepaid expenses	419	394
Deferred policy acquisition costs	942	1,748
Capital assets (note 6)	179	197
Future income taxes	–	2,950
Unpaid claims recoverable from reinsurers (notes 7 & 8)	14,825	3,702
Investments (note 5)	36,926	40,823
	$ 73,757	$ 62,796
Liabilities		
Accounts payable	$ 1,317	$ 934
Amounts due to reinsurers (note 7)	510	–
Other taxes payable	301	206
Provision for unpaid claims (notes 8 & 15)	55,035	33,477
Unearned premiums (note 15)	15,847	12,963
	73,010	47,580
Shareholders' equity		
Capital stock (note 11)	1,000	1,000
Contributed surplus (note 11)	16,200	13,500
Retained earnings (deficit)	(16,453)	716
	747	15,216
	$ 73,757	$ 62,796

Commitments (note 16)

(see accompanying notes)

Statement of Operations and Retained Earnings (Deficit)

year ended December 31	2002	2001
	(thousands of $)	
Premiums written	$ 32,201	$ 25,627
Premiums earned (note 7)	**$ 25,889**	$ 26,112
Claims incurred (note 7)	34,163	23,369
Commissions	4,219	2,779
Premium taxes	853	793
Administrative expenses	2,906	3,176
Facility Association participation (note 15)	518	85
Total claims and expenses	**42,659**	30,202
Underwriting loss	**(16,770)**	(4,090)
Investment earnings (note 9)	2,551	3,357
Loss before income taxes	**(14,219)**	(733)
Future income tax expense (recovery) (note 10)	2,950	(153)
Net loss	**(17,169)**	(580)
Retained earnings, beginning of year	716	1,296
Retained earnings (deficit), end of year	**$ (16,453)**	$ 716

(see accompanying notes)

Statement of Cash Flows

December 31	2002	2001
	(thousands of $)	
Cash used for operating activities		
Net loss	$ (17,169)	$ (580)
Non-cash items:		
Write-down of investments	84	199
Gain on disposal of investments	(25)	(778)
Amortization of bond discount	170	47
Future income taxes	2,950	(153)
Amortization of capital assets	105	93
Change in non-cash operating items (note 12)	11,560	(1,481)
	(2,325)	(2,653)
Cash provided by (used for) investing activities		
Purchase of investments	(99,380)	(49,700)
Proceeds on disposal of investments	101,524	46,334
Purchase of capital assets	(87)	(51)
	2,057	(3,417)
Cash provided by financing activities		
Contributed surplus	**2,700**	4,000
Increase (decrease) in cash and cash equivalents	**2,432**	(2,070)
Cash and cash equivalents:		
Balance, beginning of year	**103**	2,173
Balance, end of year	**2,535**	103
Plus treasury bills greater than 91 days to maturity from acquisition date	**2,994**	1,470
Cash and treasury bills per statement of financial position	**$ 5,529**	$ 1,573

Supplementary cash flow information:		
Income taxes recovered	**$ 81**	$ 1,164

(see accompanying notes)

Notes to the Financial Statements

December 31, 2002

1. STATUS OF THE CORPORATION

Coachman Insurance Company (the "Corporation") was incorporated under the laws of Ontario on June 12, 1979. The Corporation holds an Ontario provincial insurers' licence under the *Ontario Insurance Act* and is licensed to conduct business in Ontario.

On July 1, 2001, SGI CANADA Insurance Services Ltd. ("SCISL") purchased 100% of the issued and outstanding shares of the Corporation.

At Dec. 31, 2002, the Corporation did not meet the minimum capital requirements as set out by the *Ontario Insurance Act*. Management is attempting to obtain a capital injection from its parent company in an amount sufficient to meet the minimum capital requirements as discussed above and therefore, be able to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expenses over the term of the insurance policies to which they relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Investments

Bonds are recorded at amortized cost. Treasury bills, common shares and preferred shares are recorded at cost. Dividends on common and preferred shares are recognized as income on their record dates. Gains and losses on the disposal of investments are taken into income on the date of trade. Investments are written down when there is a decline in value that is other than temporary.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums

Premiums written are recognized as revenue evenly over the terms of the related policies. Unearned premiums represent the portion of premiums written relating to the unexpired terms of policies in force.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reduction of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers are estimated in a manner consistent with the method used for determining the provision for unpaid claims.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the asset is placed in service, over the estimated useful lives of the assets as follows:

Computer hardware, system costs and other equipment	20 – 33$^{1}/_{3}$%

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows consist of cash on hand and treasury bills with a maturity of 91days or less from the date of acquisition.

3. CASH AND TREASURY BILLS

Cash and treasury bills include treasury bills and commercial paper that have an average effective interest rate 2.85% (2001 – 2.75%) and an average remaining term to maturity of 93 days (2001 – 81 days).

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	2002	2001
	(thousands of $)	
Due from brokers	$ –	$ 100
Financed premiums receivable	11,248	9,745
Accrued investment income	332	339
Due from reinsurers	1,395	111
Due from fronting agreements	21	–
Due from self-insured retentions	1,285	705
Total accounts receivable	$ 14,281	$ 11,000

5. INVESTMENTS

The carrying value and fair value of the Corporation's investments are as follows:

	2002		2001	
	(thousands of $)			
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds and debentures	$ 33,148	$ 33,902	$ 23,733	$ 23,752
Common shares	3,778	4,062	8,629	9,612
Preferred shares	–	–	8,461	8,475
Total investments	$ 36,926	$ 37,964	$ 40,823	$ 41,839

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i) Bonds and debentures:

The carrying value and average effective interest rates are shown below by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal values and therefore the average effective rates are not materially different from the coupon rates. Interest is generally payable on a semi-annual basis.

Term to maturity (years)	2002 Carrying Value	2002 Average Effective Rates	2001 Carrying Value	2001 Average Effective Rates
	(thousands of $)			
Government of Canada:				
After one through five	$ 8,750	4.26%	$ 4,689	5.19%
After five	8,157	5.52%	6,506	5.72%
Canadian provincial and municipal:				
After one through five	2,740	6.15%	2,489	5.70%
After five	5,128	5.73%	3,811	6.03%
Canadian corporate:				
One or less	—	—	350	8.00%
After one through five	5,108	6.07%	2,816	6.06%
After five	3,265	6.20%	3,072	6.55%
Total bonds and debentures	$ 33,148	5.42%	$ 23,733	5.84%

Investments with a carrying value of $50,000 are on deposit with regulatory authorities as at Dec. 31, 2002. Investments with a carrying value of $650,000 are on deposit with a bank for a loan facility with respect to overdraft protection.

(ii) Common shares:

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 1.84% (2001 – 2.18%).

(iii) Preferred shares:

Preferred shares have no fixed maturity dates and are generally exposed to interest rate risk. Dividends on preferred shares are generally declared on a quarterly basis. During 2002 the Corporation sold all of its preferred share holdings in the normal course of business.

6. CAPITAL ASSETS

The components of the Corporation's investment in capital assets, as well as related amortization is as follows:

	2002			2001
	(thousands of $)			
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware, software and other equipment	$ 745	$ 566	$ 179	$ 197
Total	$ 745	$ 566	$ 179	$ 197

Amortization for the year is $105,000 (2001 - $93,000).

7. REINSURANCE CEDED

The Corporation has reinsurance treaties with SGI CANADA and other third party reinsurers, which limits the liability of the Corporation to a maximum amount of $250,000 (2001 - $250,000) on any one loss, and $250,000 (2001 - $2,000,000) on any one catastrophe.

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned and claims incurred:

	2002	2001
	(thousands of $)	
Premiums earned	$ 3,645	$ 2,040
Claims incurred	15,201	(1,012)

8. PROVISION FOR UNPAID CLAIMS

(i) Nature and variability of unpaid claims:
The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled, as all the necessary information may not be available at the statement of financial position date.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risk that the actual results may differ materially from the estimates.

Changes in the estimates for the provision for unpaid claims are as follows:

	2002	2001
	(thousands of $)	
Net unpaid claims – beginning of year	$ 29,775	$ 32,801
Provision for self-insured retention	(705)	(3,675)
Payments made during the year relating to prior year claims	13,094	10,035
(Excess) deficiency relating to prior year estimated unpaid claims	7,368	(547)
Net unpaid claims for claims of prior years	23,344	18,544
Provision for claims occurring in the current year	15,581	10,526
Provision for self-insured retention	1,285	705
Net unpaid claims – end of year	$ 40,210	$ 29,775

(ii) Type of unpaid claims:

The provision for unpaid claims is summarized by line of business as follows:

	2002			2001		
	(thousands of $)					
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile						
Injury accident benefits	$ 29,136	$ 5,990	$ 23,146	$ 14,069	$ 2,369	$ 11,700
Injury liability	23,410	8,643	14,767	17,192	840	16,352
Damage	1,012	–	1,012	1,072	54	1,018
Fidelity	–	–	–	339	339	–
Property	92	92	–	–	–	–
Surety	100	100	–	100	100	–
Self-insured retention	1,285	–	1,285	705	–	705
Total	$ 55,035	$ 14,825	$ 40,210	$ 33,477	$ 3,702	$ 29,775

(iii) Self-insured retention:

The provision for self-insured retention represents unpaid claim reserves associated with insurance policies where the insured is retaining the insurance risk. The Corporation holds security in the form of deposits in custodial accounts to guarantee the reserves associated with the self-insured retention policies.

(iv) Structured settlements:

During the normal course of settling insurance claims, the Corporation has purchased an annuity from a life insurance company to make fixed payments to a claimant of the Corporation. There are no rights under the non-commutable, non-assignable, non-transferable contract that would provide for any current or future benefit to the Corporation. The Corporation remains liable only in the event that the life insurance company fails to make payments to the Corporation's claimant. As at Dec. 31, 2002, no information has come to the Corporation's attention that would suggest any weakness or failure in the life insurance company from which it has purchased the annuity. Consequently, no provision for the credit risk is required. The net present value of these expected payments as of the statement of financial position date total $718,000 (2001 - $831,000).

9. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	2002	2001
	(thousands of $)	
Interest and dividends	$ 1,888	$ 2,240
Realized gain on sale of investments	25	778
Income from partnerships	–	12
Income from premium financing	801	663
Investment expenses	(79)	(137)
Investment write down	(84)	(199)
Total investment earnings	$ 2,551	$ 3,357

10. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

	2002	2001
	(thousands of $)	
Net (loss) income before income taxes	$ (14,219)	$ (733)
Combined federal and provincial tax rate	38.62%	40.36%
Computed tax expense based on combined rate	$ (5,491)	$ (296)
Increase (decrease) resulting from:		
Adjustment to future tax assets and liabilities for enacted changes in tax laws and rates	1,301	270
Valuation allowance	7,140	–
Other	–	(127)
Total income tax expense (recovery)	$ 2,950	$ (153)

The Corporation has non-capital loss carryforwards of approximately $23,156,000 (2001 - $8,366,000) that expire on dates ranging from 2007 to 2009.

11. SHARE CAPITAL AND CONTRIBUTED SURPLUS

The Corporation is authorized to issue 10,000 common shares. At the end of 2002 there are 10,000 (2001 – 10,000) common shares issued. In December 2002, the Corporation's parent, SCISL, contributed $2,700,000 (2001 - $4,000,000) in cash, which is reflected as contributed surplus on the statement of financial position.

12. CASH FLOWS

The change in non-cash operating items is comprised of the following:

	2002	2001
	(thousands of $)	
Accounts receivable	$ (3,281)	$ 4,229
Due from Facility Association	(247)	26
Prepaid expenses	(25)	(360)
Deferred policy acquisition costs	806	(174)
Income tax recoverable	–	1,136
Unpaid claims recoverable from reinsurers	(11,031)	2,551
Accounts payable	383	46
Amounts due to reinsurers	510	(305)
Other taxes payable	95	(544)
Provision for unpaid claims	21,466	(5,577)
Unearned premiums	2,884	(2,509)
	$ 11,560	$ (1,481)

13. FAIR VALUE

The following method and assumptions were used to estimate the fair value of each class of financial instrument:

(i) For the following financial instruments the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments:

(a) accounts receivable
(b) due from Facility Association
(c) cash and treasury bills
(d) accounts payable
(e) amounts due to reinsurers
(f) other taxes payable

(ii) For bonds and debentures, common and preferred shares, the fair values are considered to approximate quoted market values on recognized stock exchanges based on the latest bid prices.

(iii) Provision for unpaid claims and unpaid claims recoverable from reinsurers.

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has been omitted because it is not practicable to determine fair value with sufficient reliability (note 8).

14. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties"). Transactions and amounts outstanding at year-end are as follows:

Category	2002	2001
	(thousands of $)	
Investments	$ 565	$ -
Accounts receivable	2	-
Investment earnings	32	-

In 2002, the Corporation entered into a fronting agreement with its parent, SCISL, whereby the Corporation sells property and casualty products in Ontario through its distribution system for SCISL in return for a fronting fee. In 2002, $618,000 in premiums were written and SCISL paid the Corporation $17,000 in fronting fees.

Other related party transactions are disclosed separately in the notes to the financial statements.

15. FACILITY ASSOCIATION

The Corporation is a participant in various risk sharing pools whereby most companies in the industry share resources to provide insurance for high risks.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	2002	2001
	(thousands of $)	
Premiums written	$ 914	$ 421
Premiums earned	$ 697	$ 405
Claims incurred	1,035	439
Commissions	36	17
Premium taxes	28	12
Administrative expenses	169	89
Total claims and expenses	1,268	557
Underwriting loss	(571)	(152)
Investment earnings	53	67
Net loss	$ (518)	$ (85)
Facility Association receivable	$ 656	$ 409
Unearned premiums	297	80
Provision for unpaid claims	1,490	1,012

16. COMMITMENTS

The Corporation has a lease with one of its directors for its office premises expiring Dec. 31, 2008, at an annual rent of $180,000.

17. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2001 balances have been reclassified to conform to 2002 financial statement presentation.